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Expenditure of Funds under Federal Employment, Training, and Housing Programs in Buffalo, New York. HRD-78-101; B-163922. May 1, 1978. 5 pp. + appendix (15 pp.).

Report to Rep. Henry J. Nowak; Rep. Jack F. Kemp; by Gregory J. Ahart, Director, Human Resources Div.

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A review of how the City of Buffalo, New York, controls Federal funds granted to it focused on three areas: general information on how the city controls Federal funds, review of actions taken on recommendations in a 1977 report on Comprehensive Employment and Training Act (CETA) programs in Buffalo and Erie County, and followup of allegations regarding misuse of Federal funds. Buffalo received grants totaling about \$140 million from a number of Federal agencies during fiscal years 1976 and 1977. The City Comptroller's Office is responsible for CETA funds, and the Financial Control of Agencies has control over block grant funds. Both systems appear to have adequate controls although this does not preclude problems with individual transactions. In both systems, grantees are given initial advances, and all expenditures must be substantiated with paid receipts from vendors before any additional funds are provided. Actions have been taken or are being taken by appropriate agencies to correct deficiencies noted in the 1977 report on CETA programs, including: recovery of over \$92,000 from Buffalo for nine ineligible participations, insuring that only eligible persons participate in the program, gathering data to identify groups who should receive preferred treatment in hiring, requiring certifications regarding nepotism, and revision of language on political activities. Documentation regarding allegations of misuse of funds has been subpoenaed by the Grand Jury, but most of the alleged purchases were made by an agency no longer in existence. (RRS)

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

HUMAN RESOURCES
DIVISION

B-163922

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RELEASED 5/1/78

The Honorable Henry J. Mowak
The Honorable Jack F. Kemp
House of Representatives

MAY 01 1978

By letters dated July 25 and 26, 1977, you asked that we review how the City of Buffalo controls Federal funds given to it and actions taken by the Department of Labor in complying with recommendations in our February 1977 report on employment programs in Buffalo and Erie County, New York. Based on our August 4, 1977, meeting with you and Congressman John J. LaFalce we focused our efforts on three objectives:

- Obtaining general information on how the City controls Federal funds.
- Reviewing the actions taken by the Department of Labor, the City of Buffalo, and the Erie County Consortium on recommendations in our 1977 report on certain Comprehensive Employment and Training Act employment programs in Buffalo and Erie County (Feb. 18, 1977, HRL-77-24).
- Following up on allegations appearing in Buffalo newspapers regarding the misuse of Federal funds.

We made the review at agencies of the City of Buffalo: the Department of Human Resources, the Financial Control of Agencies (an agency within the City's Department of Administration and Finance), and the Comptroller's Office. We also held discussions with officials of the U.S. Attorney's Office in Buffalo, the Department of Labor, the Department of Housing and Urban Development, the Buffalo Board of Education, and the Erie County Consortium.

Our findings are summarized below. More detailed information is contained in appendix I.

CONTROL OF FEDERAL FUNDS

Based on information gathered for us by the Federal Regional Council in New York City and our discussions with City officials, Buffalo received grants totaling about \$140 million from a number of Federal agencies during fiscal years 1976 and 1977. The responsibility for control of these funds in Buffalo is divided among three groups: (1) the Comptroller's Office, (2) the Board of Education, and (3) the Financial Control of Agencies.

We concentrated our efforts on the City's control over funds for the Comprehensive Employment and Training Act (CETA) program administered by the Department of Labor and the Community Development Block Grant program administered by the Department of Housing and Urban Development. The CETA program provides funds for employment and training of unemployed, underemployed, and economically disadvantaged persons. The Block Grant program's objective is to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities principally for persons of low and moderate incomes. Our efforts were concentrated in these two areas because of the concerns expressed by you and by Congressman LaFalce, and because of the many newspaper allegations regarding these programs.

The City Comptroller's Office is responsible for CETA funds and the Financial Control of Agencies has control over Block Grant funds. Based on general information we obtained, both systems appear to have sufficient controls, although this may not preclude problems with individual transactions. In both systems City agencies or community groups are given initial advances. They must substantiate all expenditures with paid receipts from the vendors before any additional funds are provided.

The Buffalo Corporation Counsel issued an opinion in May 1976 stating that the Block Grant funds, under the City Charter, must be controlled by the City Comptroller's Office. A City official told us that in late 1977 the Mayor's Office filed a motion with the City Common Council to transfer the control of Block Grant funds to the Comptroller's Office. At the end of January 1978 the Common Council had not acted on this motion.

ACTIONS TAKEN ON PRIOR RECOMMENDATIONS

Our review showed that actions have been or are presently being taken by the appropriate agencies to correct most deficiencies noted in our February 1977 report on CETA titles II and VI employment programs in Buffalo and Erie County. These actions include:

- Labor recovered over \$92,000 from Buffalo for nine ineligible participants. The Erie County Consortium collected over \$9,000 from the City of Lackawanna for one ineligible participant and Labor allowed Erie County to keep this money for use in the CETA program. These 10 participants were not unemployed long enough to qualify for the program when they were hired. However, Labor did not recover funds involving the remaining four ineligibles in Buffalo and six ineligibles in Erie County who did not meet the qualifying period for unemployment when they applied for CETA positions, but were unemployed long enough when they were hired. Thus, in our view, Labor allowed both Buffalo and the Erie County Consortium to violate program regulations. We believe that Labor should follow our earlier report's recommendation and seek recovery of funds for these ineligible participants.
- Both Buffalo and the Consortium have taken actions to insure that only eligible persons participate in the program.
- Both prime sponsors have gathered data to identify groups, such as veterans, who should receive preferred treatment in hiring.
- Both prime sponsors now require applicants to complete certifications regarding nepotism and provide for dismissing those who falsify the certifications, but neither sponsor verifies these statements.
- Labor is working with Buffalo to improve its financial reporting.
- Labor revised CETA regulations to provide more specific language on political activities to prohibit employing participants in legislators' offices and in political positions in other elected officials' offices.

FOLLOWUP ON NEWSPAPER ALLEGATIONS

During the summer of 1977 many articles appeared in the Buffalo newspapers alleging misuse of Federal funds. We met with the U.S. Attorney's Office to discuss its investigation of the allegations. However, it would not release to us most of the information it has because the information was subpoenaed for the Grand Jury.

We have established that almost all of the alleged purchases referred to in the newspapers were made by the Human Resources Planning Project, an operating agency under the old Model Cities program. The Model Cities program was administered by the Department of Housing and Urban Development and was enacted to improve living conditions for a number of poverty neighborhoods across the country. The Model Cities program was consolidated with other housing programs under 1974 legislation. The Human Resources Planning Project has also ceased to exist.

The contract file for the Human Resources Planning Project is incomplete and lacks sufficient documentation to determine whether some items were actually purchased or to determine the basis for other payments that were made. We were able, however, to determine that items such as guns, furniture, communications equipment, refrigerators, carpet, and draperies were purchased with funds from the Model Cities program. Most of the items were purchased during 1975 and 1976, with Model Cities funds that remained available to provide a transition to the Block Grant program.

Another allegation of misused Federal funds included renovating a Democratic Party campaign headquarters. We found that a building used as a Democratic Party campaign headquarters was also used to store City supplies. The City replaced a broken window using Model Cities funds. We found no other vouchers relating to this building.

We followed up on other allegations which are discussed in appendix I.

We discussed these facts with Department of Housing and Urban Development officials in the New York region, because that agency was responsible for administering the program and because they had made a final audit of the Buffalo Model Cities program in 1976. Based on these discussions and the questionable nature of some of the transactions, we have referred the matter to the Department of Housing and Urban Development. The Department's Assistant Secretary for

Community Planning and Development advised us in January 1978 that he has requested the Department's Inspector General to undertake a special audit and recommend appropriate actions.

* * * * *

As arranged with your offices we did not obtain written agency comments. However, the matters included in this report were discussed where appropriate with City of Buffalo and Erie County officials and with regional office officials of the Departments of Labor and of Housing and Urban Development.

We are sending a copy of this report today to Congressman LaFalce. As agreed with your offices, in 3 working days we will make this report available to others who may be interested in it.


Gregory J. Ahart
Director

C o n t e n t s

	<u>Page</u>
EXPENDITURE OF FUNDS UNDER FEDERAL EMPLOYMENT, TRAINING, AND HOUSING PROGRAMS IN BUFFALO, NEW YORK	1
INTRODUCTION	1
CONTROL OF FEDERAL FUNDS	1
LABOR AND PRIME SPONSOR CORRECTIVE ACTIONS RESULTING FROM OUR RECOMMENDATIONS	5
NEWSPAPER ALLEGATIONS ON MISUSE OF FEDERAL FUNDS	11

ABBREVIATIONS

CETA Comprehensive Employment and Training Act
GAO General Accounting Office

EXPENDITURE OF FUNDS UNDER FEDERAL EMPLOYMENT,
TRAINING, AND HOUSING PROGRAMS IN BUFFALO, NEW YORK

INTRODUCTION

During the summer of 1977, articles in Buffalo, New York, newspapers alleged that Federal funds received by Buffalo under the Department of Labor's Comprehensive Employment and Training Act (CETA) program and the Department of Housing and Urban Development's Community Development Block Grant program were being misused. The stories claimed that Federal funds were used for many things unrelated to the programs such as (1) purchasing refrigerators, furniture, firearms, and communications equipment; (2) renovating a Democratic Party campaign headquarters; and (3) paying Mastercharge and Carte Blanche bills. Also, one newspaper reported that as much as \$7 million a month, mostly in Federal funds, was escaping local audit controls by the City Comptroller.

Based on agreements reached with Congressmen Henry J. Nowak, Jack F. Kemp, and John J. LaFalce, we developed information on three areas: (1) the City's control of Federal funds, (2) actions taken as a result of recommendations in our February 1977 report on certain CETA employment programs in Buffalo and Erie County, and (3) the accuracy of the allegations made by the newspapers.

CONTROL OF FEDERAL FUNDS

Based on information gathered for us by the Federal Regional Council in New York City and our discussions with City of Buffalo officials, Buffalo received grants totaling about \$140 million from a number of Federal agencies for fiscal years 1976 (including the transition quarter) and 1977.

In Buffalo, control of these funds is divided among three groups: (1) the City Comptroller's Office, (2) the Board of Education, and (3) the Financial Control of Agencies. We concentrated our efforts on the City's control of CETA and Block Grant funds, because of concerns by Members of Congress and the many allegations related to these programs.

Control of CETA funds

The principal delivery system for Department of Labor employment and training programs is authorized by the Comprehensive Employment and Training Act of 1973 (29 U.S.C. 801). CETA, as amended, authorizes grants to sponsors for comprehensive employment and training services (title I); authorizes funds for public service employment (titles II and VI); and

establishes employment and training programs for special groups, such as Indians and migrants (title III).

CETA's purpose is to establish a flexible and decentralized system for Federal, State, and local programs for job training and employment opportunities for economically disadvantaged, unemployed, and underemployed persons, and to assure that these services lead to maximum opportunities and enhanced self-sufficiency of participants. This is done through grants to about 445 prime sponsors, which are generally State and local governments.

Employees of the Department of Labor's regional offices--later referred to as Labor representatives--are the primary contacts between the prime sponsor and Labor. Their responsibilities under CETA include: providing technical assistance to prime sponsors in planning and operations, coordinating the plan review and approval process, and monitoring and evaluating prime sponsor performance.

Administering the CETA program in Buffalo is the responsibility of the City's Department of Human Resources. Two divisions in the City Comptroller's Office, the Divisions of Audit and of Accounting, are responsible for control of CETA funds.

When the City receives the funds, the Division of Accounting records the receipt in a trust and agency account, and the funds are deposited in a local bank. The money for each CETA title (I, II, III, and VI) is kept in a separate bank account.

When a City department wishes to make a purchase with these funds, the department head submits a departmental order showing the planned expenses. The order is sent to the Division of Audit which pre-audits the request. The pre-audit consists of checking to see if the request is properly filled out and signed. The Division of Audit also checks to see if the proper account will be charged, and whether or not the charge appears to be valid under the program.

If the purchase is approved, the order is sent to the Division of Accounting which insures that funds are available and encumbers the necessary funds. The order is then sent back to the department head with approval to make the purchase. After the purchase is made, the vendor signs the purchase order and submits it as a voucher to the City. The Division of Audit receives the voucher and post-audits the purchase which

includes a physical inspection, when appropriate (such as furniture). The voucher is then sent to the Division of Accounting which generates a warrant and issues it to the vendor who can then obtain payment.

Under CETA there are also a number of noncity groups with whom the City subcontracts (16 subcontractors received about \$8 million in fiscal year 1977). Some examples of these are the Buffalo Urban League, the Consortium of Spanish Speaking Community Organizations, and the Police Athletic League. While the Comptroller's Office has ultimate responsibility for the financial control of CETA funds being used by these groups, procedures differ somewhat because these subcontractors receive advances and report their expenditures to the Division of Manpower (Fiscal Unit) in the Department of Human Resources, rather than directly to the Comptroller's Office.

The mechanics of the system are as follows: The City signs a contract with a community group and the subcontractor requests an advance of funds. The advance is deposited in the subcontractor's bank account to be used for allowable expenses. The advance should generally be used within a 2-week period. When the subcontractor requests another advance, it must also submit substantiation such as paid receipts and/or canceled checks for the expenditures of previously advanced funds. Personnel in the Division of Manpower (Fiscal Unit) review the expenditures for budget compliance and proper substantiation. When they are satisfied, they prepare a voucher and send it to the Divisions of Accounting and of Audit in the City's Comptroller's Office for review. This process repeats itself until the subcontractor's budget is exhausted and then a City auditor or an independent public accountant reviews the subcontractor's books.

Control of Block Grant funds

The Housing and Community Development Act of 1974 (42 U.S.C. 5301) replaced several Department of Housing and Urban Development categorical grant programs with the Community Development Block Grant program. The program's primary objective is to develop viable urban communities by providing decent housing and a suitable living environment and by expanding economic opportunities, principally for persons of low and moderate incomes. Assistance is directed toward such goals as eliminating slums and blight; eliminating conditions detrimental to health, safety, and public welfare; and conserving and expanding the Nation's housing stock.

Administering the Block Grant program is the responsibility of the Buffalo Urban Renewal Agency. The funds provided to Buffalo under the Block Grant are controlled by the Financial Control of Agencies. This agency was created in July 1970 by the City Common Council. Originally part of the Mayor's Office, it was later transferred to the Department of Administration and Finance.

When a City department wishes to make a purchase under the Block Grant program, it submits a voucher to the Financial Control of Agencies, at which time it is checked to see if the request is properly filled out, properly signed, if the proper account is to be charged, and if the planned expense appears to be valid under the program. If the planned purchase is approved, the Financial Control of Agencies checks to see if funds are available, encumbers the funds, and writes a check to cover the purchase.

The procedures used by the Financial Control of Agencies for community groups are similar to those used by the Comptroller's Office for CETA subcontractors. The contract with the community group is executed and the funds encumbered. The Financial Control of Agencies staff then performs a check of the subcontractor to insure that its bookkeeping procedures are adequate. The subcontractor is given an advance which is expected to last about a month. Each month thereafter, the subcontractor must request a new advance and submit all documentation on its expenditures against the previous advance. These expenditures are reviewed by Financial Control of Agencies staff and, if approved, a check for the new advance is prepared and deposited in the subcontractor's account. This procedure continues until the program's budget is depleted, at which time an independent public accountant audits the subcontractor's books.

Possible change in fiscal control of Block Grant funds

The City's Corporation Counsel issued an opinion in May 1976 stating that the Block Grant funds must, under the City Charter, be under the Comptroller's control. We discussed with City officials the rationale for having Financial Control of Agencies control these funds. They told us that the agency became responsible for Federal funds when the Model Cities program started in 1970 in Buffalo. The funds for the program were put under the Financial Control of Agencies because at the time it could process vouchers more quickly than the Comptroller's Office and therefore was able to get the money into the community sooner.

A City official told us that the Mayor's Office filed a motion with the City Common Council in late 1977 to transfer the control of Block Grant funds to the Comptroller's Office, but that the Council had not acted on the motion as of the end of January 1978.

LABOR AND PRIME SPONSOR CORRECTIVE ACTIONS
RESULTING FROM OUR RECOMMENDATIONS

Our February 1977 recommendations to the Secretary of Labor are presented below along with the Department of Labor's, the City of Buffalo's, and Erie County Consortium's actions. 1/

Prime sponsors selection procedures

We recommended that the Secretary of Labor:

"Take corrective action regarding the amounts paid to ineligible participants, including, where appropriate, the recovery of CETA funds."

At the time of our prior review, the act stated that persons who were unemployed for at least 30 days or underemployed were eligible to participate in CETA titles II and VI programs if they lived in an area qualifying for assistance. In areas where the unemployment rate exceeded 7 percent, prime sponsors could use title VI funds to provide employment for persons who were unemployed for at least 15 days. Labor regulations stated that the qualifying periods of unemployment (30 or 15 days) had to be met before applying to participate.

Labor requested restitution of funds from Buffalo for 9 of 13 participants we identified because they were ineligible at the time they were hired. On August 2, 1977, Buffalo sent Labor a check for \$92,129.81. Labor did not require reimbursement for the four other participants who were ineligible at the time of their application to the program, but who were unemployed for 30 days or more at the time they were enrolled in CETA.

Labor requested restitution from the Erie County Consortium for three of the seven ineligible participants we identified.

1/ These recommendations are contained in our report on CETA titles II and VI entitled "Employment Programs in Buffalo and Erie County Under the Comprehensive Employment and Training Act Can Be Improved" (Feb. 18, 1977, HRD-77-24).

Consortium officials recovered \$9,037.61 from the City of Lackawanna for one ineligible participant and Labor allowed the Consortium to keep this money for use in the CETA program. The Erie County Consortium challenged Labor on the other two cases. The Labor representative (see p. 2) for the Consortium told us that Consortium documentation in these cases was satisfactory so no restitution is required. The two participants had been unemployed for more than 30 days at the time they were hired. Labor did not request restitution of funds for the remaining four participants we identified as ineligible at the time of application since they had been unemployed for 30 days at the time they were enrolled in CETA.

The 20 ineligible participants we identified did not meet the qualifying period prior to applying for assistance. However, Labor has not required recovery of funds for 10 of those participants citing that the 10 persons were unemployed 30 days at the time they were enrolled in CETA. Therefore, Labor has chosen to ignore its own eligibility regulations. We believe that Labor should follow our earlier report's recommendation and seek recovery of funds for the remaining 10 ineligibles.

We also recommended that the Secretary:

"Require the Buffalo and Erie County prime sponsors to (1) carefully review job applications for completeness and accuracy and (2) selectively verify the eligibility data on application forms for both present and prospective participants to make certain that only eligible persons are enrolled in the program."

Both Buffalo and Erie County are now using more detailed application forms. A City official told us that in October 1977 Buffalo began sending letters to applicants' previous employers, the New York State Employment Service, and the New York Social Services Agency to verify data for all CETA applicants the City intends to hire.

Erie County Consortium officials said they verify all applicants' employment data with the New York State Employment Service.

We recommended that the Secretary:

"Encourage both prime sponsors to obtain data to identify those applicants that are in the preferred categories and adopt formal procedures, within their selection systems, which will provide that these persons actually do receive priority in obtaining CETA jobs."

Buffalo is now using the New York State Department of Labor and U.S. Census data to identify those applicants who should be in preferred categories. Buffalo has identified its preferred category segments under title II of CETA as Spanish-Americans, veterans, welfare recipients, blacks, and women. Under title VI veterans are being given priority referrals; priority status is then given to blacks, Spanish-Americans, female heads of households, native Americans, senior citizens, the handicapped, ex-offenders, ex-drug addicts, and recovering alcoholics. Buffalo is using the New York State Employment Service, Veterans Employment Service, and various community groups to reach these population segments.

The Labor representative told us that she monitors Buffalo's programs quarterly and the City is meeting or exceeding its goals for enrolling these population segments.

The Erie County Consortium is using New York State Department of Labor data and consortium-developed data on applicants to identify those applicants who should be in preferred categories.

The Consortium had identified its preferred categories for both CETA titles II and VI as the economically disadvantaged, females, minorities, welfare recipients, unemployed heads of households, veterans, and older workers. The Labor representative for the Consortium told us that Erie County was meeting or exceeding its goals for enrolling these identified groups.

We recommended that the Secretary:

"Work with both prime sponsors to improve their job application forms so that sufficient information is collected to administer Labor's regulations regarding nepotism."

Both prime sponsors now require applicants to complete certifications regarding nepotism, but neither verifies these statements. The certification the Buffalo applicant completes

states that falsifying the nepotism certification is grounds for immediate dismissal. Erie County's certification does not contain a statement on penalties for falsifying the certification. However, an Erie County official told us that the County considers the nepotism certification to be part of the application package and that an applicant falsifying any part of the application package is subject to immediate dismissal.

Prime sponsors' financial reporting systems

We recommended that the Secretary:

"Require its [New York] regional office to make more careful reviews of planned expenditures in grant applications and of actual expenditures shown in quarterly financial reports submitted by the prime sponsors to see that CETA requirements are met."

Our prior review found no problems with Erie County's administrative expenses reporting. However, we did find problems in Buffalo's reporting of administrative costs by activity, major revisions to reported administrative costs, and omission of indirect costs for CETA titles II and VI.

To correct those problems Labor contracted with a certified public accounting firm to audit Buffalo's CETA program. According to a Labor official the audit, completed after our fieldwork for our followup review ended, covered the period from July 1, 1974, to June 30, 1977, and resulted in about \$103,000 in questioned costs. The total amount of expenditures reviewed was about \$46 million. The Labor official told us that about \$102,000 of the questioned costs were for expenditures exceeding the prime sponsor's allocation. The remaining approximately \$1,000 was for questioned indirect costs. The Labor official told us that Labor is working with the prime sponsor to remedy these problems, including the possible recovery of funds.

The Labor representative said that Buffalo's CETA finances are reviewed monthly onsite and Buffalo's CETA financial reports are examined quarterly at Labor's regional office.

We recommended that the Secretary:

"Require prime sponsors to adequately describe and justify activities, other than public service employment, funded under titles II and VI of CETA."

Our prior review questioned Buffalo's justification for classifying many titles II and VI public service employment jobs as work experience and then making large purchases of supplies and equipment for these jobs. At the time of our review purchases of supplies and equipment were not allowed for public service employment jobs under titles II and VI, although titles II and VI funds could be used for work experience programs authorized under CETA titles I and III. Purchases of supplies and equipment for work experience activities were allowable.

Labor disagreed with our recommendation saying that its regional office felt that Buffalo's request to use title VI funds for a work experience activity was adequately justified. We did not agree with Labor since Buffalo's justification for these activities did not show to which cost category the purchases of supplies and equipment were charged. We noted in our report that CETA was subsequently amended to permit titles II and VI funds to be used for limited purchases of supplies, equipment, and materials for public service employment programs under those titles.

We recommended that the Secretary:

"Work with Buffalo to seek ways to improve its financial reporting [and] require Buffalo to keep adequate records of CETA expenditures."

Ross, Stewart and Benjamin, public accountants, conducted audits in December 1976 and June 1977 of Buffalo's financial management of CETA funds. Labor correspondence shows most deficiencies the audits noted (inadequate organization and preservation of workpapers, lack of accounting records, and failure to reconcile books among different divisions) have been corrected. However, according to a Labor official, monthend cash balances remain excessive and do not agree with bank statements; and Buffalo is still not monitoring the financial management of the subgrantees and contractors.

Buffalo maintains that it is attempting to keep its monthend cash balances down. Balances are reconciled between the Division of Manpower (Fiscal Unit) and the City Comptroller. If reconciliation with the City Treasurer (bank statements) is pending at the time the Federal Cash Transaction Report is due, adjustments are made in the subsequent report. Buffalo also said it desk monitors subgrantees and contractors. It planned to conduct bimonthly field evaluations of subgrantees in fiscal year 1978, and will also hold financial training sessions for subgrantees, which will be attended by the Labor representative.

The Labor representative told us that Labor is working with Buffalo to attempt to remedy these problems. The Labor representative will also review Buffalo's evaluation of the subgrantees during her weekly visits to Buffalo.

We recommended that the Secretary:

"Require Buffalo and Erie County to maintain records and report accurately the pension benefit costs accrued for CETA enrollees."

During our followup work Buffalo and Erie County prime sponsor officials told us that their records are adequate to accurately report the pension benefit costs accrued for CETA employees. In addition, a 1975 New York State law prohibits CETA transitional public service employees from joining the retirement system on or after September 1, 1975, unless they belonged to the retirement system on or before August 31, 1975. Thus prime sponsor pension system enrollment figures are constant except for those terminated from CETA or those State or local employees who had previously joined the pension system and were subsequently rehired into CETA public service jobs after September 1, 1975.

Acceptability of employment positions

We recommended that the Secretary:

"Examine the activities and duties of the participants assigned to the offices of local legislators in Buffalo and Erie County and take corrective action, including, where appropriate, the recovery of CETA funds and the transfer of the participants involved to other positions if it is decided to abolish the positions in question."

In its May 4, 1977, letter to the Chairmen of the Senate Committee on Governmental Affairs, the House Committee on Government Operations and the House and Senate Committees on Appropriations (required by Public Law 91-510, Section 236, when we make recommendations) responding to our report recommendations, Labor stated that due to "lack of clarity" in CETA regulations and both prime sponsors' timely corrective action transferring the participants from local legislators' offices, restitution of funds was not required. CETA regulations were revised subsequent to the hiring of these participants to provide more specific language on political activities to prohibit employing participants in legislators' offices and in political positions in other elected officials' offices.

NEWSPAPER ALLEGATIONS ON
MISUSE OF FEDERAL FUNDS

In the summer of 1977 many articles alleging misuse of Federal funds appeared in the Buffalo newspapers. In addition to our efforts to examine these allegations, the U.S. Attorney's Office has been investigating these matters since the summer of 1976. However, almost all the information developed during its investigation could not be made available for our use because it was subpoenaed for the Grand Jury.

Alleged lack of control of Federal funds

One newspaper reported that as much as \$7 million a month, mostly in Federal funds, was escaping the City Comptroller's audit safeguards. While it is true that all Federal funds given to Buffalo are not subject to controls of the City's Comptroller, we found that Financial Control of Agencies and the Board of Education control Federal funds under their jurisdiction. We believe this allegation refers to the Financial Control of Agencies which controls the Block Grant funds and certain other Federal funds provided to the City by the Department of Housing and Urban Development.

Alleged misuse of Federal funds

Many of the newspaper articles alleged that many items were purchased with Federal funds that were unrelated to the program or were of a questionable nature. Based on our review we have established that most of the expenditures referred to in the newspapers were made by a single operating agency under the now defunct Model Cities program. While we did not determine whether all the expenditures identified were proper, some of these appeared questionable. We have referred these matters to the Department of Housing and Urban Development. (See p. 15.)

The Model Cities program was established by the Demonstration Cities and Metropolitan Development Act of 1966 (Public Law 89-754, 80 Stat. 1255) and administered by the Department of Housing and Urban Development. Its purpose was to improve living conditions for residents of a number of poverty neighborhoods across the country. The program was administered through "operating agencies." The operating agency in Buffalo was the Human Resources Planning Project within the Buffalo Model Cities Agency. The Model Cities Agency and the planning project no longer exist.

The Model Cities program, urban renewal, and a series of other community development programs were replaced when the Housing and Community Development Act of 1974 was enacted. This act provided for the Community Development Block Grant program. Model Cities funds remained available after the Block Grant program was enacted in order to provide a transition to the new program. Some of these funds were administered by Buffalo's Department of Human Resources to close out the Model Cities program.

According to the memorandum of agreement signed in August 1974 ^{1/} between the City and the operating agency, the Human Resources Planning Project's objectives were to: (1) maximize human service resources to satisfy unmet human needs, (2) establish widespread citizen involvement in determining needs and assessing resources to meet those needs, (3) assist in providing the City with the analytical capability to determine problem areas and set priorities, and (4) assist in the systematic search for additional sources of funding for human service programs.

The original budget for the Human Resources Planning Project was \$200,000 with later revisions being approved for a total budget of \$392,000 out of about \$19 million for the total 5-year Model Cities program in Buffalo.

Based on our review of the planning project's contract file and other related documentation, we were able to identify four major types of expenditures other than salaries under the contract. They were: (1) travel, (2) payments to community organizations, (3) equipment and other purchases, and (4) consulting fees.

Travel expenditures

One newspaper article said that Federal agents were investigating whether CETA employees traveled out of State on vice activities. As noted above most of the U.S. Attorney's information was not available to us.

Payments to community groups

Although not mentioned in the newspapers, our review showed that payments were made to community groups. Community

^{1/}Many of the newspaper articles were about expenditures that were made under this memorandum of agreement.

groups receiving payments included the United Way for various meetings, the Buffalo Brass Ensemble for Christmas programs at the Shiloh Baptist Church, the Buffalo Special Police Benevolent Association for "breakfast photos," the Pride of Western New York Temple for a patron advertisement in a souvenir journal, and the R.W.K. Women's Club for undocumented expenses.

Equipment and other purchases

The planning project's contract file is incomplete and lacks documentation for many of the items that were purchased. For example, there are several payments to credit card companies but there is no documentation to show the nature of these expenses. Because this file was so incomplete, we examined a number of files for Block Grant programs maintained by the Financial Control of Agencies to determine whether the planning project's file was representative of those kept by that agency. In each of the other cases we found that there was adequate documentation for reconstructing the expenditures. Buffalo officials advised us that the incomplete planning project files were probably due to others investigating these purchases prior to our review who may have removed many of the receipts that were used to justify payments.

Most of the equipment purchases were made in late 1975 and during 1976. They include:

<u>Firearms</u>	<u>Cost</u>
1 Baur pistol (25 cal.)	\$ 94.50
1 Colt revolver	169.95
1 Browning pistol (9mm.)	328.15
 <u>Refrigerators</u>	
2 Sears	\$199.98
2 Avanti	299.90
Installed carpet	\$250.80
 <u>Furniture</u>	
Desk	\$245.00
Credenza	185.00
Sofa	389.95
2 seat sofa and desk chair	438.90
Communications equipment (note a)	approximately \$12,000.00
Draperies	\$ 167.69

a/ While we could find a vendor's bill for this equipment, we could not find corresponding payment documentation for about \$8,000 of this communications equipment.

The former Director of the Human Resources Planning Project told us that because of thefts and the fact that City police cannot be detailed to guard certain buildings (one of which housed divisions of the Department of Human Resources) the Department established its own security force. He linked the firearms purchases to this security force. However, the Commissioner of Buffalo's Department of Human Resources used his personal funds to reimburse the Model Cities program on November 22, 1976, for the Baur and Colt pistols. The former Director of the Human Resources Planning Project told us he would reimburse the Project for the Browning pistol. The communications equipment purchases were also said to be for the security force.

The former director of the planning project told us the refrigerators were necessary because of late hours worked by the office staff and because the security force was on 24-hour duty. Carpet, furniture, and drapery purchases were termed as routine purchases.

Newspaper allegations regarding the purchases of pet food and soft drinks were substantiated by Buffalo officials. The officials stated that the pet food purchases were for dogs which were part of the above-cited security force. Officials said that a \$407.25 purchase of Coca Cola was for either Thanksgiving or Christmas parties held for disadvantaged youths. The only documentation on this purchase was an invoice and a canceled check.

Payments to Mastercharge and Carte Blanche referred to in the newspapers were also part of the Human Resources Planning Project contract:

- | | |
|------------------|----------------------|
| 1. Mastercharge | \$130.00 and \$61.00 |
| 2. Carte Blanche | \$122.95 |

These charges were made in December 1975 in Miami Beach, Florida. The officials who made the purchases told us they could not remember what they purchased. It appears that the Mastercharge payments were to charter a fishing boat, and the Carte Blanche was for a Tropicana fruit shipment. In two cases (\$130.00 and \$122.95) the officials who made the purchases said they would repay the Model Cities program since there was no documentation to support these purchases. In the third, an official said he paid for the item himself. As noted on page 13 we also found several other credit card charges for which we were unable to find any substantiation.

We found that a plate glass window was replaced at 792 Genesee Street in Buffalo in November 1975 and was paid for with funds from the Human Resources Planning Project. The building has for the past several years been a Democratic Party campaign headquarters. However, according to the Commissioner of the Department of Human Resources, his department also used this building as a place to store supplies and as a delivery point for items that were to be given to the community. The Department of Human Resources used the building rent free and therefore when the window was broken, the Commissioner felt a moral obligation to pay for it, and used available Model Cities funds in doing so. We found no other vouchers related to this address.

Federal audit of Model Cities expenditures

We discussed the Human Resources Planning Project contract with Department of Housing and Urban Development officials in the New York region because they had made a final audit of the Model Cities program. Their audit made no mention of the items discussed above. Based on our discussions we formally referred this matter for further investigation to the Department's Assistant Secretary for Community Planning and Development. He informed us in January 1978 that he has requested that the Department's Inspector General undertake a special audit in Buffalo and make appropriate recommendations.

Consultant contracts

Newspaper articles alleged that payments were made under contracts although work was not performed. We examined these contracts which were for such services as developing a directory of Department of Human Resources personnel; helping to develop programs for senior citizens and for affirmative action, and aiding in assessing the management information needs of the department. In each case, there was a final product indicating that some work was performed. We did not evaluate the usefulness of the products because all but one of these contracts were paid for with City and not Federal funds and, therefore, we had no jurisdiction in the matter.

Other allegations

Allegations other than those described above appeared in the newspapers or were referred to us. These include allegations of compulsory campaign contributions by CETA workers, price gouging, the existence of a CETA vice ring, and CETA workers who did not show up for work.

Compulsory campaign contributions

One newspaper reported that CETA employees allegedly had been required to contribute to the Democratic Party as a condition of employment. We discussed this matter with the U.S. Attorney for Buffalo and the Federal Bureau of Investigation who have been investigating this allegation but have found no substantiating evidence. Their investigation is still ongoing.

Alleged price gouging by contractors selling paint

We found that substantial amounts of paint and paint thinner have been purchased under the CETA title VI program. In January 1975, there were at least 3,133 gallons of paint and thinner purchased. The average price per gallon was \$6.58 with ranges from 97 cents per gallon for thinner to \$9.49 a gallon for Rust-o-Leum Acrylic. All the paint and paint thinner was purchased by the City purchasing department and was subject to the financial controls discussed earlier in this appendix.

In our February report we stated that the large purchases of supplies and equipment--including paint--were not adequately justified under the CETA title VI program and questioned Labor's monitoring of prime sponsor's activities under CETA titles II and VI. (See pp. 8 and 9.)

Alleged CETA vice ring

We discussed with the U.S. Attorney's Office the press allegation that a vice ring existed consisting of women enrolled in CETA but not showing up for CETA work. We agreed that we would not get involved because (1) the U.S. Attorney's investigation into this allegation had been extensive and he was satisfied with his progress and (2) his Office was better equipped than ours to do any further investigation that might be necessary.

No-show CETA workers

We found two cases involving no-shows. The first was an allegation referred to us by Congressman Kemp. A constituent alleged that an individual employed under the CETA program at the "South Town Campus" in Buffalo was being paid for time which she did not work, and that she was operating a dance studio while employed by CETA.

Erie County Consortium officials identified the woman in the allegation as a former CETA employee who had attendance problems. On September 22, 1977, they sent her a formal warning notice concerning unauthorized absences, and subsequently terminated her participation in CETA on October 6, 1977.

The second case was referred to us by a Consortium official who told us of a CETA employee in the town of Evans who was paid for 14 days and 2 hours (\$507.59) during which he did not work. The official said that the individual's time sheets had been falsified prior to being forwarded to the Consortium. The officials said the Consortium found out about this illegality and requested reimbursement from the Town. The Town reimbursed Erie County for \$507.59 and fired the CETA employee. Because of the falsified time sheets, we turned this matter over to the U.S. Attorney and the Federal Bureau of Investigation in Buffalo.

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